

Report Narrative

DISTRICT OF COLUMBIA RETIREMENT BOARD FISCAL YEAR 2001 ANNUAL REPORT

I. INTRODUCTION

The District of Columbia Retirement Board (the "Board") was established as an independent agency of the District of Columbia government by the U.S. Congress on November 17, 1979, through enactment of the District of Columbia Retirement Reform Act (the "Reform Act")¹. This measure provided the Board with exclusive authority and discretion to manage and control the District of Columbia Police Officers and Fire Fighters' Retirement Fund, and the Teachers' Retirement Fund (collectively the "Funds"). The Reform Act also sets forth the Board's structure, specific authority and legal responsibilities. As explained in more detail below, the Board's former responsibility for managing the Judges' Retirement Fund has since been assumed by the Federal government pursuant to title XI of the Balanced Budget Act of 1997.²

To facilitate effective monitoring of the retirement system, the Reform Act and the Police Officers, Fire Fighters, and Teachers Retirement Benefit Replacement Plan Act of 1998 ("Replacement Plan Act")³ require the Board to publish an annual report for each fiscal year.⁴ This report provides detailed disclosure of the financial and actuarial status of the retirement Funds. The report is transmitted to the Congress, the Mayor, and the Council of the District of Columbia by April 28 of each year. The report is also made available for examination by participants and beneficiaries of the Funds at the principal office of the Board located at 1400 L Street, NW, Suite 300, Washington, D.C. 20005.

Legislative History

Prior to enactment of the Reform Act in 1979, eligibility and benefit rules, and financing arrangements for the pension plans for the District's Police Officers, Fire Fighters, Teachers and Judges were authorized by various acts of Congress and administered by the Federal government. Financing was "pay-as-you-go", meaning benefits were paid from general revenues when workers retired instead of being pre-funded throughout the careers of participating workers. This pay-as-you-go method of financing is actuarially unsound, and results in what is called an "unfunded actuarial accrued liability" ("unfunded liability").

¹Public Law 96-122, 93 Stat 866, codified at D.C. Code §1-701 et seq (1981 Ed.).

²Title XI of the Balanced Budget Act of 1997 (Public Law 105-33, 111 Stat. 251), entitled the "National Capital Revitalization and Self-Government Improvement Act of 1997", amended the Reform Act to require the Federal government to assume full responsibility for continuation of the retirement program for Judges in the District of Columbia and thus relieved the District of all liability associated with the Judges' Retirement Fund.

³The Replacement Plan Act is codified at D.C. Code § 1-901.01 et seq (2001 Ed.) Sept. 18, 1998, D.C. Law 12-252, § 101.45 DCR 4045.

⁴The Board's fiscal year commences on October 1 and ends on September 30.

Unfunded Liability

An unfunded liability results when assets set aside under an employer's pension plan are accumulating at an insufficient rate to provide a pool of funds out of which the promised pensions can be paid when they become due. Consequently, when the Reform Act was enacted and required the District government ("District") to assume responsibility for these pension plans in 1979, the unfunded pension liabilities that had accumulated (approximately \$2.6 billion) were also transferred to the District, and continued to grow through 1997.

"National Capital Revitalization and Self-Government Improvement Act of 1997"

In response to a financial crisis confronting the District of Columbia, the Clinton Administration proposed a plan in 1997, to provide Federal financial relief to the District in various forms. One critical area of relief came in the form of a proposal for the Federal government to assume financial responsibility for most of the unfunded liability that it created and transferred to the District almost twenty years earlier. The unfunded liability had grown from \$2.6 billion in 1979 to approximately \$4.9 billion in 1997. With an increasing annual payment of over \$300 million, the District's contribution to the retirement Funds was one of the largest single ongoing financial obligations, resulting in a progressively significant strain on the District's limited financial resources. At the conclusion of many months of hearings and debate in the Congress over the Administration's revitalization plan, Congress enacted title XI of the Balanced Budget Act of 1997 (Public Law 105-33, 111 Stat. 251), entitled the "National Capital Revitalization and Self-Government Improvement Act of 1997" (the "Revitalization Act").

The Revitalization Act amended the Reform Act, significantly reducing the District's liability and its administrative responsibility to certain eligible participants and beneficiaries of the Police Officers and Fire Fighters' Retirement Fund and the Teachers' Retirement Fund ("covered District employees"). The Revitalization Act saved the District \$250 million or more per year in total retirement Fund contributions.

As a result of the Revitalization Act, the District's required contribution for the two Funds (Police Officers and Fire Fighters, and Teachers) in fiscal year 1999 was reduced from an amount estimated in excess of \$300 million to \$57.3 million. As earlier mentioned, the Revitalization Act created a separate Judicial Retirement Fund for Judges of the District of Columbia courts, requiring the Federal government to take full responsibility (all assets and obligations) for continuation (including administration) of that retirement program.

The Revitalization Act also required the District government to enact a replacement retirement plan for covered District employees whose plans were in effect frozen as of June 30, 1997. In response, the Council of the District of Columbia adopted the Replacement Plan Act.

Finally, the Revitalization Act required the Board to transfer accumulated assets from the retirement Funds with a value of approximately \$3.4 billion to the U.S. Department of the Treasury ("Treasury"), acting on behalf of the Federal government. After many months of negotiations between the Board, the District, and Treasury, the asset transfer was accomplished on May 1, 1999.

Board Structure

The Board is currently comprised of twelve trustees.⁵ The composition of the Board is an expression of Congressional intent to balance the various interests represented by the District's Executive and Legislative branches as well as the Funds' participant groups. Accordingly, three trustees are appointed by the Mayor, three are appointed by the Council of the District of Columbia, and the remaining six are elected by the participant groups (one each from the active and retired Police Officers, Fire Fighters, and Teachers).

Two trustees appointed by the Mayor and one of the Council appointees are further required by the Reform Act to possess professional work experience in the banking, insurance, or investment industry.

In addition to the statutory framework provided by the Reform Act for the Board's fiscal and operational responsibilities, the District of Columbia Municipal Regulations ("DCMR") contain an extensive set of rules and regulations promulgated by the Board (Title 7, Chapter 15) that address various structural and operating characteristics of the Board ("Board Rules"). For example, the Board Rules describe the various executive officers of the Board and their responsibilities, staff positions and functions, standing committees and their respective jurisdiction, and rules for the Board's open meetings.

The Board's operating budget is appropriated out of the investment earnings of the retirement Funds managed by the Board.

Operations of the Board and Staff

By adhering to its asset allocation plan; periodically rebalancing portfolios when necessary; controlling transaction costs; selecting investment managers with an audited long-term track record and a disciplined investment process; and aggressively negotiating and renegotiating investment management fees, the Board has long managed the Funds in a sound, prudent and well-documented manner.

Since inception, the Board has operated pursuant to a committee system. This structure provides a two-tiered process for fiduciary review and analysis. The Board currently has six standing committees: (1) Benefits; (2) Fiduciary; (3) Investment; (4) Legislative; (5) Operations; and (6) Minority Participation.

Board policies and directives are implemented by an in-house staff of thirteen (13) authorized staff positions. The Board's staff currently maintains responsibility for in-house accounting, procurement, human resources, budgeting, information technology, investment program development and oversight, and legal review and counsel. These capabilities are further enhanced by the retention of outside consultants all of whom are directed by, and work closely with, senior staff.

⁵The Revitalization Act removed the Judicial representative from the Board after the successful transfer of the entire D.C. Judges' Retirement program to the Federal government in 1999.

Board Responsibilities

The Board's primary responsibilities include, without limitation, the following:

- Managing the Funds on an actuarially sound basis;
- Exercising discretionary authority as fiduciaries to the Funds, solely in the interest of the participants and beneficiaries. All duties are discharged with the care, skill, prudence and diligence as would a prudent expert acting in a like capacity.
- Monitoring pension payments from the District government⁶ to the Funds, as determined in accordance with the Replacement Plan Act, and structuring the Fund assets in a manner designed to diversify the investments of the Funds so as to maximize returns while minimizing the risk of large losses;
- Maintaining, in an appropriate depository, a cash reserve in an amount determined by the Board to be sufficient to meet current outlays for annuitants and other authorized retirement and disability benefits paid from the Funds;
- Engaging the services of (a) competent investment counsel(s), registered under the Investment Advisors Act of 1940; (b) an enrolled actuary to conduct actuarial valuations, and determining the District payment due for the forthcoming fiscal year; and (c) an independent certified public accountant to conduct an examination of the financial statements, books and records of the Funds, in accordance with generally accepted accounting principles, in order to prepare an annual audited financial report for each of the retirement Funds; and
- Providing information to the participants and beneficiaries of the Funds that informs them of their rights and obligations under their respective retirement plans in the form of a "summary plan description" with appropriate amendments and updates to reflect substantive changes.

II. HIGHLIGHTS OF THE BOARD'S ACTIVITIES

In conjunction with its primary responsibility to manage the assets of the Funds, the Board was engaged in many other activities in fiscal year 2001, which are briefly highlighted below:

- Negotiated an agreement with various District government agencies and boards to establish interim guidelines to implement the retirement options prescribed by the School Reform Act for employees of public charter schools in the District of Columbia.

⁶Federal contributions to the Funds were discontinued after fiscal year 1997 pursuant to title XI of the Balanced Budget Act of 1997 (the "Revitalization Act").

- Began work with the U.S. Department of the Treasury to revise retirement plan description summaries of the retirement programs for District police officers, fire fighters and teachers.
- Participated in the U.S. Treasury Benefits Administration Workgroup meetings to develop better coordination of information among the agencies responsible for benefits administration and investments for the District's retirement plans for police officers, fire fighters and teachers.
- Appeared before the Council of the District of Columbia, Committee on Government Operations to testify on the Board's FY 2002 budget request and to discuss the Board's administrative operations, investment program and investment performance.
- Revised investment guidelines to relax the lower limits on minimum capital commitments to private equity partnerships.
- Conducted an election for a retired teacher in the District's public school system to serve a four-year term on the Board.
- Conducted Trustee educational training sessions designed to: (1) facilitate Trustee compliance with fiduciary responsibilities; and (2) develop Trustee understanding of modern investment practices.
- Conducted monthly Board and Investment Committee meetings.

Administrative Operations

With respect to internal operations, the Board conducted regularly scheduled, well attended meetings of the Board and its various committees and encouraged all trustees to participate in investment management workshops and educational training programs designed to facilitate compliance with the high standard of care associated with their fiduciary responsibilities.

III. LONG TERM INVESTMENT PROGRAM

Capital Market Overview

In the wake of the catastrophic events on September 11, 2001, no shortage of ink has been devoted to the story of the stock market woes. Many a pundit has been quick to point out the short-term losses following past national crises like President Kennedy's assassination and the Gulf War, and even quicker to reaffirm the market's resilience over the long-term.

However, even before September 11, the near-term economic picture was not hopeful. Stock prices were in the doldrum, the market was ailing and investors were uneasy. The events that followed September 11th simply hastened the decline and spurred an emotional sell-off. The market's four-day shutdown after the terrorist attacks was the longest suspension of trading since the Great Depression, and its widely anticipated reopening brought the steepest one-week tumble for the Dow Jones Industrial Average since the Depression. By the time the fiscal year ended, both the Dow Jones Industrial Average and the S&P 500 index had made their worst showings since the crash of 1987. In an attempt to fuel an economic rebound, the Federal Open Market Committee, led by Chairman Alan Greenspan, cut the federal funds rate in the fastest string of reductions since the Federal Reserve was founded in 1913. At 2.5%, the federal funds rate is now at its lowest level since 1962, but the market has not been quick to respond. Additionally, a weak labor market has seen jobless claims surge to their highest level in nearly a decade. There were no initial public offerings ("IPOs") in September 2001. This was the first IPO-free month since 1975.

For the volatile fiscal year ended September 30, 2001, the Total Fund fell -11.7%. During the fiscal year, most of the primary capital markets in which the Retirement Board invested achieved negative investment returns. Negative returns are disheartening, but the Total Fund fared much better than the broader markets, as measured by the S&P 500 index, which dropped -26.6%.

Investment Objective

The Retirement Board seeks to achieve a nominal rate of return which exceeds the 7.25% actuarial return assumption at a level of risk commensurate with the levels of returns and consistent with sound and responsible investment practices. As a long-term investor, the Retirement Board emphasizes long-term results over short-term gains.

Long-Term Performance at a Glance

5 Years Ended	Average Annualized Return	Actuarial Return	Value Added in Basis Points
9/2000	14.20%	7.25%	695
12/2000	13.00%	7.25%	575
3/2001	11.00%	7.25%	375
6/2001	10.90%	7.25%	365
9/2001	8.90%	7.25%	165

Investment Performance

The investment program (or Total Fund) achieved a total return for the fiscal year ended September 30, 2001 of -11.7%. This return far exceeded the Total Fund Benchmark return of -15.8% by 410 basis points. The Total Fund Benchmark is a portfolio comprised of the asset classes which make up the strategic asset allocation adopted by the Retirement Board in December 1998 and set forth in the table below.

Strategic Asset Allocation	
Asset Class	Target Allocation
Domestic Equities	43.7%
International Equities	20.0%
Fixed Income	30.3%
Private Equity	5.0%
Short-Term	1.0%

The return of the Total Fund Benchmark is a weighted average of the passive benchmark returns of each of the asset classes. The assumption is that this return will exceed the actuarial investment rate of return over the long term; thus assuring achievement of the Retirement Board's investment objective. Performance is calculated using the time-weighted rates of return in compliance with AIMR (Association for Investment Management and Research) standards. Total return includes interest and dividends as well as capital appreciation.

The Total Fund consistently ranks above the 50th percentile with below median risk in the Retirement Board's independent investment consultant universe of clients. Over the three years ended September 30, 2001, the Total Fund has added value over the Total Fund Benchmark, returning 6.1% versus 4.7%, respectively.

The primary driver of Total Fund outperformance for the fiscal year was asset allocation. An overweight to U.S. fixed income helped the portfolio withstand some of the turmoil in the equity markets. Additionally, active management was beneficial because both domestic equity and fixed income managers added significant value.

The Retirement Board's investment performance exceeded that of its benchmarks for all asset classes except real estate and private equity. Real estate and private equity returns are reported with a one-quarter lag to the rest of the investment portfolio. Total return for the real estate composite is unrepresentative of the performance of the asset class because it does not reflect a diversified core real estate composite, but instead the performance of a single real estate asset that was subsequently sold in October 2001.

Domestic (U.S.) Equities

For the trailing year, the Retirement Board's domestic equity composite surpassed the Russell 3000 index by 490 basis points, returning -23.0% versus the Russell 3000 return of -27.9%. For the three year period ended September 30, 2001, the domestic equity composite earned 4.8% leading the Russell 3000 index by 230 basis points. The domestic equity risk structure was in line with its target of 70% passive (or index) and 30% active strategies. But, asset allocation moved further away from strategic targets as domestic equities were underweight (38.9% versus 43.7%) due to weak absolute results.

International (Non-U.S.) Equities

For the trailing year, the Retirement Board's international equity composite beat the performance of the MSCI EAFE index, declining -27.2% compared with the -28.3% return for the MSCI EAFE index. For the trailing three year period ended September 30, 2001, the international equity composite led the MSCI EAFE benchmark by 440 basis points, returning 3.5% versus -0.9%. Outperformance for the fiscal year was attributed to strong stock selection from the two international equity managers. Asset allocation moved further away from strategic targets as international equities were underweight (15.5% versus 20.0%) due to deterioration in the foreign markets.

Fixed Income

For the one year period ended September 30, 2001, the fixed income composite outperformed the Lehman Aggregate index returning 14.0% versus the benchmark return of 13.0%. The composite benefited from a longer duration relative to the index, as interest rates fell across the yield curve. Over the trailing three years, the fixed income composite has beat the Lehman Aggregate index by 30 basis points, returning 6.7% versus 6.4% for the index. As of September 30, 2001, fixed income assets comprised 37.6% of the Total Fund.

Private Equity

As of September 30, 2001, the private equity composite had generated a pooled internal rate of return ("IRR") of 10.5% since inception. This compares with an IRR of 13.1% as of September 30, 2000. The volatility in performance is driven largely by the public securities held by Behrman Capital II, L.P. and Blackstone Capital Partners III, L.P. Since inception, more than \$183 million had been committed to investments as of September 30, 2001. Partnerships in the portfolio had drawn down over \$167.5 million from inception and capital called totaled \$12.6 million during fiscal year ended September 30, 2001. Private equity was slightly behind target allocation, with 4.5% of Total Fund assets invested in private equity compared with the target allocation of 5.0%.

Investment Activity

Fiscal year 2001 was a busy year at the Retirement Board. In addition to routinely reviewing the investment performance of the Total Fund, the various composites, each investment manager and the asset allocation policy, the Retirement Board addressed asset misallocations by rebalancing on a quarterly basis whenever the portfolio drifted outside the policy benchmark target ranges.

Additional initiatives undertaken by the Retirement Board included: adoption of a strategic investment plan to pursue investment opportunities under a reactivated private equity program by targeting an annual commitment amount; amendment of investment policy guidelines to permit investments in public real estate investment trust (REITs) or other similar equity pooled investments without regard to specific jurisdictional limitations provided such investments do not constitute plan assets; and started a small/mid cap growth equity manager search and completed a search for a Master Custodian.

As of September 30, 2001, the fair value of the Retirement Board's assets was \$1.879 billion, a decline of close to 9% from fiscal year 2000 close of \$2.045 billion. While the unrealized depreciation in asset valuation was significant, in comparison to other public pension funds the Retirement Board fared much better. From a survey conducted by an independent service organization, it was reported that assets of the largest 200 pension funds located in the U.S. plummeted 14% for the one year period ended September 30, 2001. Additionally, assets of the largest domestic 1,000 pension plans slid by more than 12%.

The most important decision the Retirement Board is faced with is its strategic asset allocation, that is, which asset classes to invest in and how much to invest in each asset class. During fiscal year 2002, the Retirement Board will embark upon a new asset liability study to determine the most appropriate asset mix. The Retirement Board will carefully evaluate the risk/reward tradeoff of various asset mixes, the ability of the Retirement Board to meet long term pension obligations and the impact of different economic conditions on both assets and liabilities.

Performance Growth and Asset Balances

In Exhibit A, fiscal year 2001 performance of the Retirement Board's equity, fixed income managers and real estate and private equity composite returns are presented by the Retirement Board's independent investment consultant, BARRA RogersCasey. Total asset balances for the two Retirement Funds as of the end of the fiscal year 2001 are included in Exhibit B. Exhibit C depicts the dollar growth of the Total Fund relative to the actuarial investment assumption rate of 7.00% through September 1997 and 7.25% thereafter.

Relative Riskiness

The Risk/Reward profile of the Total Fund for the five-year period ended September 30, 2001 can be found in Exhibit D. Total Fund risk (or standard deviation) is minimized through the allocation of assets among noncorrelated asset classes and further by style diversification. Periodic rebalancing back to the edge of the target range and closely monitoring investment manager performance will mitigate active risk. Historical and forward-looking expected returns standard deviations and correlations for each major asset class are critical elements in the development of an asset allocation strategy. Variability of actual asset class returns will occur from year to year.

Comparison of Performance

Section 162(b)(2)(C) of the Reform Act requires the Retirement Board to submit a schedule of the assets held in each of the retirement Funds. Section 125 of the Reform Act permits the Retirement Board to commingle the assets of the two retirement Funds for investment purposes. A composite listing of all of the assets held by the Retirement Board as of September 30, 2001 is included under Exhibit E.

Exhibit F compares the Retirement Board's Total Fund performance to the return of the Total Fund Benchmark. For the trailing one year period ended September 30, 2001, the Total Fund added approximately 410 basis points to active return, returning -11.7% versus the benchmark return of -15.8%.

IV. DETERMINATION OF ANNUAL PAYMENTS TO THE RETIREMENT FUNDS

The Replacement Plan Act (D.C. Law 12-152) effective September 18, 1998 established the method and formula to calculate the employer contribution by the District to the D.C. Teachers' Retirement Fund and to the D.C. Police Officers and Fire Fighters' Retirement Fund. The District contribution formula consists of the "normal contribution" and the "adjustment payment" amounts. The enrolled actuary calculates the "normal contribution" amount as the "normal contribution rate" multiplied by the estimated annual covered payroll of the affected employee group. This amount, if paid annually into the Funds from the date of actuarial determination to the date of the active employees separation, would be sufficient (together with employee contributions and investment earnings) to pay for all future retirement benefits, including survivor benefits. The "adjustment payment" amount is the "normal contribution rate" for the second prior fiscal year multiplied by the difference between the estimated annual covered payroll and the actual annual covered payroll for the second prior fiscal year. The first "adjustment payment" amount was calculated for the fiscal year 2001 payment.

V. ACTUARIAL VALUATIONS

The Replacement Plan Act requires the Board's actuary to undertake a full actuarial valuation of the retirement Funds every two years unless the actuary "determines that a more frequent valuation is necessary to support the actuary's opinion" (D.C. Code Section 1-907.03(a)(2)). The Board's actuary, Milliman USA (formerly Milliman and Robertson, Inc.), decided to conduct a full valuation as of October 1, 1999 for fiscal year 2001. The results of the actuarial valuation are presented in the Report of the Enrolled Actuary together with the actuarial certification of the District contribution dated December 20, 1999 (Exhibit H). The actuarially certified amounts determined as described in Section IV above for fiscal year 2001 consists of \$0.2 million to the Teachers' Retirement Fund and \$47.4 million to the Police Officers and Fire Fighters' Retirement Fund. These amounts were certified by the Board to the Mayor on December 29, 1999 (Exhibit I).

VI. FISCAL YEAR 2001 DISTRICT PAYMENTS

Section 132 of the Police Officers, Fire Fighters and Teachers Retirement Benefit Replacement Act of 1998 (D.C. Law 12-152) stipulates:

"(a) Each fiscal year, the District shall ensure that a sufficient amount is appropriated for each separate fund comprising the Funds, as the District of Columbia payment to the Appropriate separate fund comprising the Funds, which shall be equal to, or greater than, the amount calculated as provided for in section 133, as determined by the enrolled actuary..."

The District of Columbia Retirement Reform Act at Section 142(c)(1)(B) (D.C. Code Section 1-722(c)(1)(B)) and D.C. Act 12-155 at Section 123(b) requires the D.C. Retirement Board to certify to the Mayor and the Council, not less than thirty days before the Mayor submits the budget for the District of Columbia government to the D.C. Council, the amount of the District's payment to the D.C. Teachers' Retirement Fund and the D.C. Police Officers and Fire Fighters' Retirement Fund. The Board approved the enrolled actuary's certification on December 16, 1999.

The following were the amounts certified by the Board as the District's fiscal year 2001 payments to each of the Funds, in millions.

Retirement Fund	Normal Contribution	Shortfall (Overpayment)	Total
Teachers	\$ 6.6	(6.4)	0.2
Police & Fire	\$ 47.0	0.4	47.4
Total Contribution			\$47.6

Pursuant to Section 142(c)(2) of the Reform Act and Section 123(b) of the Replacement Act, the Mayor and the Council are required to include in the District's budget "[n]ot less than the full amount certified by the Board." The Mayor and the Council included in the fiscal year 2001 budget and the Congress appropriated in Public Law 106-522 enacted on November 22, 2000, \$0.2 million for a contribution to the Teachers' Retirement Fund and \$49.0 million for a contribution to the Police Officers and Fire Fighters' Retirement Fund.

On October 6, 2000 the District paid the \$47.6 million certified by the Board. On February 15, 2001 the District contributed \$1.6 million to the Police Officers and Fire Fighters' Retirement Fund for the increase in the District contribution resulting from enactment of D.C. Law 13-172, the Police and Fire Fighters Survival Annuity Adjustment Amendment Act of 2000, effective October 19, 2000.

VII. ADMINISTRATIVE EXPENSES OF THE BOARD

The District of Columbia Appropriations Act of 2001 (Public Law 106-522) authorized 14 full-time equivalent positions and \$11.414 million to pay for legal, management, investment, and other fees and administrative expenses of the D.C. Retirement Board. Since those amounts were to be paid from the investment earnings of the Teachers' and the Police Officers and Fire Fighters' Retirement Funds, the Board exercised strict expenditure controls and spent only \$6.748 million of the authorized amount. Of this amount, 76% was expended for asset managers and investment consultants. An itemization of these expenses is presented in Exhibit J.

VIII. RETIREMENT BENEFIT PROGRAM ADMINISTRATION

Currently, much of the responsibility for administering the retirement benefit programs for the teachers, police officers, and fire fighters remains with several agencies of the District of Columbia government. The Retirement Board has exclusive responsibility for the investment of the assets of the two retirement funds.

The eligibility of police officers and fire fighters to receive retirement benefits, for instance, is determined by an adjudicating board in the D.C. Office of Personnel. This Police and Firemen's Retirement and Relief Board is responsible for establishing eligibility for regular and disability pensions, including the determination of an applicant's degree of impairment and the percentage of disability. Similarly, the Board of Education makes eligibility determinations with respect to teachers' benefits.

Once eligibility has been established by the applicable adjudicating authority, the Office of Pay and Retirement Services of the Office of the Chief Financial Officer of the District calculates the retirement benefit amount, adds the annuitant to the retirement rolls, and thereafter makes monthly payments regularly until the beneficiary becomes ineligible or dies.

Monthly, the Deputy Chief Financial Officer for Financial Operations and Systems certifies the amount necessary to meet the retirement annuity payroll for the month. The Office of Finance and Treasury of the Office of the Chief Financial Officer of the District draws and mails the retirement benefit checks.

All pension and survivor benefits that are the responsibility solely of the Federal government are reimbursed by the Federal government on a monthly basis.

All pension and survivor benefits that are a split responsibility of the Federal and District governments are being reimbursed by the Federal government on a monthly basis.

A Memorandum of Understanding between the Federal and District governments provides that the Board reimburses the District Benefit Payment portion on an annual basis. After the Federal government issues final rules to calculate the Federal Benefit Payment amount, the Board will reimburse on a monthly basis the District Benefit Payment share of those benefit payments.

The District government is responsible for the total cost of benefit increases enacted after June 30, 1997. All such pension and survivor benefits are reimbursed by the Board on a monthly basis.

Periodically, the Board reimburses or is reimbursed by the Office of the Chief Financial Officer for the amount of refunds of contributions, purchase of prior service credit, and other cash transactions. The Board has recorded an estimated amount of that reimbursement, which amount is included in the audited financial statements presented in Exhibit G.

IX. ADDITIONAL INFORMATION REQUIREMENTS

Changes in Investment Mangers

The Board did not change investment managers during fiscal year 2001.

Current Lease For Office Space

- Location of Leased Premises:
1400 L Street, NW, Suite 300
Washington, D.C. 20005
- Description of Leased Premises:
Office space consists of 6,374 square feet
- Name of Lessor:
M-C Capitol Associates L.L.C.

- Effective Date of Lease:
September 1, 2000
- Term of Lease:
60 months
- Minimum Rent:
The annual rental per square foot for fiscal year 2001 was \$31.50

Other Disclosures

The retirement programs coverage is disclosed in Exhibit K, the List of Fiduciaries and Service Providers and Schedule of Transaction with Persons Known To Be Parties-in-Interest is presented in Exhibit L, The Schedule of Trustees Activities Sponsored by Service Providers is presented in Exhibit M, the Summary of Lease Default is presented in Exhibit N, and the Custodian Bank's Balance Sheet is presented in Exhibit O.